

Message Text

CONFIDENTIAL

PAGE 01 BONN 02541 01 OF 02 151339Z

44

ACTION EUR-25

INFO OCT-01 ARA-16 EA-11 ISO-00 EURE-00 SPC-03 SAM-01

AID-20 EB-11 NSC-10 RSC-01 CIEP-02 TRSE-00 SS-20

STR-08 OMB-01 CEA-02 CIAE-00 COME-00 FRB-02 INR-10

NSAE-00 XMB-07 OPIC-12 LAB-06 SIL-01 L-03 H-03 PA-04

PRS-01 USIA-15 DRC-01 AGR-20 /217 W

----- 046327

P R 151320Z FEB 74

FM AMEMBASSY BONN

TO SECSTATE WASHDC PRIORITY 0469

INFO AMEMBASSY SANTIAGO

AMEMBASSY BERN

AMEMBASSY BRUSSELS

AMEMBASSY THE HAGUE

AMEMBASSY LONDON

AMEMBASSY MADRID

AMEMBASSY OTTAWA

AMEMBASSY PARIS

AMEMBASSY STOCKHOLM

AMEMBASSY TOKYO

AMEMBASSY BUCHAREST

AMEMBASSY MOSCOW

AMEMBASSY ROME

AMEMBASSY COPENHAGEN

AMEMBASSY BUENOS AIRES

C O N F I D E N T I A L SECTION 01 OF 02 BONN 02541

E.O. 11652: GDS

TAGS: EFIN, CI

SUBJECT: VISIT OF CHILEAN ECONOMIC TEAM TO BONN

REF: SANTIAGO 597 (NOTAL)

1. SUMMARY. THE CHILEAN TEAM OF ECONOMIC ADVISERS

CONFIDENTIAL

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PAGE 02 BONN 02541 01 OF 02 151339Z

MADE A VERY FAVORABLE IMPRESSION ON THE FRG DURING

ITS RECENT VISIT TO BONN. THE TEAM DISCUSSED THE CHILEAN ECONOMIC SITUATION AND PROVIDED A GENERAL PICTURE OF ITS FOREIGN INVESTMENT REQUIREMENTS IN THE SHORT TO MEDIUM TERM. NO SPECIFIC COMMITMENTS WERE REQUEST . END SUMMARY.

2. FRG ECONOMICS MINISTRY DEPUTY ASSISTANT SECRETARY MUELLER-THUNS AND OFFICE DIRECTOR GEHRING CONVENED A MEETING WITH REPRESENTATIVES OF THE EMBASSIES OF THE US, JAPAN, FRANCE, SWITZERLAND, SPAIN, THE NETHERLANDS, THE UK AND BELGIUM TO DISCUSS THE RECENT VISIT OF THE CHILEAN ECONOMIC TEAM TO BONN. THE ITALIAN EMBASSY WAS INSTRUCTED BY ROME NOT TO PARTICIPATE IN THE MEETING SINCE THE ITALIAN GOVERNMENT DID NOT HAVE RELATIONS WITH THE MILITARY JUNTA. SWEDEN AND DENMARK WERE INVITED BUT WERE "NO-SHOWS". MUELLER-THUNS SAID THAT THE CHILEAN DELEGATION, WHICH WAS HEADED BY RAUL SAEZ, INCLUDED MESSRS. MARSHALL ARD BLANCO OF THE CHILEAN CENTRAL BANK AS WELL AS CHARGE VALDEZ OF THE CHILEAN EMBASSY IN BONN.

3. MUELLER-THUNS TOOK GREAT PAINS TO EMPHASIZE THAT ONLY THE INTERNAL CHILEAN ECONOMIC SITUATION WAS DISCUSSED. THERE WERE NO DISCUSSIONS ABOUT THE POLITICAL SITUATION IN CHILE, NATIONALIZATION AND COMPENSATION QUESTIONS, NOR WERE SPECIFIC QUESTIONS OF THE UPCOMING PARIS CLUB MEETING DISCUSSED. SAEZ AND HIS TEAM PLAN TO TRAVEL TO LONDON, BERN, THE HAGUE, PARIS AND PROBABLY BRUSSELS TO GIVE THE SAME PRESENTATION HAVING ALREADY BEEN TO TOKYO, WASHINGTON AND OTTAWA. THE CHILEANS DID NOT MEET WITH ANY REPRESENTATIVES OF GERMAN COMPANIES DURING THIS VISIT

4. ACCORDING TO MUELLER-THUNS, THE CHILEANS DISCUSSED IN DETAIL PROPOSALS FOR IMPROVING AGRICULTURE AND THE COPPER INDUSTRIES.

A. THE CHILEANS PLAN TO REDUCE THEIR DEPENDENCY ON IMPORTED AGRICULTURAL PRODUCTS WHICH COST THEM CONFIDENTIAL

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PAGE 03 BONN 02541 01 OF 02 151339Z

\$600 MILLION PER YEAR IN FOREIGN EXCHANGE. THE CHILEANS EMPHASIZED THEIR INTENTION TO ATTEMPT TO BECOME AN AGRICULTURAL EXPORTER BY MEANS OF INTENSIFYING IRRIGATION FOR WHICH FOREIGN INVESTMENT WILL BE NEEDED.

B. COPPER. THE CHILEANS SAID THEY PLAN TO INCREASE PRODUCTION FROM 725,000 TONS IN 1974 TO 925,000 TONS IN 1978. THEY REALIZE THAT THIS TOO

WILL TAKE SUBSTANTIAL FOREIGN INVESTMENT AND THEY
ARE PREPARED TO GIVE THE NECESSARY GUARANTEES
TO FOREIGN INVESTORS AGAINST NATIONALIZATION

5. ON OTHER ISSUES,MUELLERTHUNS REPORTED THAT THE CHILEANS
PLAN TO MOVE TOWARD A UNIFIED EXCHANGE RATE.
IN ADDITION THEY HAD HOPED TO REDUCE THEIR INFLATION
RATE, WHICH IN 1973 WAS 600 PERCENT, TO 50 PERCENT
IN 1974 ALTHOUGH IT NOW APPEARS THE RATE WILL BE
MORE ON THE ORDER OF 120 PERCENT. WITH REGARD TO
CIPEC, THE CHILEANS EXPRESSED THEIR DESIRE TO
PROVIDE THE CONSUMING COUNTRIES WITH AS MUCH COPPER
AS NEEDED, THEREBY ELIMINATING ANY POSSIBLE PRODUCER
ACTION SIMILAR TO THAT TAKEN BY THE OIL-PRODUCING
COUNTRIES.

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PAGE 01 BONN 02541 02 OF 02 151340Z

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FM AMEMBASSY BONN

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C O N F I D E N T I A L SECTION 02 OF 02 BONN 02541

6. WITH REGARD TO THE UPCOMING PARIS CLUB MEETING
IN PARIS ON FEBRUARY 21 AND 22, THE FRG HAS THE
IMPRESSION THAT THE CHILEANS ARE ANXIOUS TO
REACH AGREEMENT WITH THE DEBTOR COUNTRIES. HOWEVER,
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PAGE 02 BONN 02541 02 OF 02 151340Z

THE FRG MADE IT CLEAR THAT ITS ATTITUDE WILL BE
BASED UPON DETAILS CONTAINED IN THE IMF STUDY, A
STUDY WHICH THE FRG THINKS OUTDATED DUE TO OIL
PRICE INCREASES.

7. MUELLERTHUNS CONCLUDED THE MEETING, IN RESPONSE TO A
FRENCH QUESTION, BY STATING THAT HE WAS FAVORABLY
IMPRESSED BY THE CONSTRUCTIVE ATTITUDE TAKEN BY THE
CHILEAN DELEGATION. IN PARTICULAR HE CITED THE
WILLINGNESS OF THE CHILEANS TO REACH AGREEMENT ON
THE NATIONALIZATION/COMPENSATION QUESTION BUT HE
TEMPERED HIS REMARKS BY NOTING THAT THE CHILEANS
PROBABLY WOULD NOT HAVE THE FUNDS TO PAY COMPENSATION.

8. IN A FOLLOWUP CONVERSATION WITH EMBOFF, GEHRING
ELABORATED ON HIS VIEWS OF THE CHILEAN TEAM'S VISIT.
HE SAID HE THOUGHT THE PRINCIPAL PURPOSE OF THE VISIT
WAS TO ESTABLISH A CLOSER DIALOGUE WITH CHILE'S
MAJOR CREDITORS IN AN ATTEMPT TO DISPEL SOME OF
THE POLITICAL ANTIPATHY FELT TOWARD THE CURRENT
CHILEAN GOVERNMENT. A SECOND AIM WAS TO IMPRESS THE
CREDITORS WITH THE URGENCY OF THE CHILEAN PROBLEMS
AND THE SERIOUSNESS WITH WHICH THE GOC WAS FACING
THEM. GEHRING SAID THE CHILEANS MADE A VERY GOOD
IMPRESSION DURING THEIR VISIT. HE SAID THAT
BEFORE THE VISIT MUELLERTHUNS ATTITUDE WAS QUOTE JUST
ANOTHER LATIN AMERICAN DEBT RESCHEDULING DELEGATION
END QUOTE BUT THAT AFTER THE VISIT HE HAD A GOOD
DEAL OF APPRECIATION FOR AND UNDERSTANDING OF THE
CHILEAN POSITION. GEHRING REPORTED THAT BOTH MUELLERTHUNS
AND HE WERE VERY FAVORABLY IMPRESSED WITH RAUL SAEZ'

HONESTY, INTEGRITY AND SINCERITY.
THEY WOULD BE SEEKING FOREIGN CAPITAL AND
AGRARIAN REFORM INCLUDING IRRIGATION WORKS,

9. GEHRING PROVIDED ADDITIONAL DETAILS ON THE
CHILEANS' PRESENTATION TO THE FRG. HE SAID THE
GOC TEAM HAD DISCUSSED IN GENERAL TERMS THE
INVESTMENT PROJECTS FOR WHICH THEY WOULD BE
SEEKING FOREIGN CAPITAL AND LISTED AGRARIAN REFORM
INCLUDING IRRIGATION WORKS, COPPER MINE REHABILITATION
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PAGE 03 BONN 02541 02 OF 02 151340Z

AND NATURAL GAS ON THE CONTINENTAL SHELF. HE SAID
THE CHILEANS' DISCUSSION OF THE DOMESTIC ECONOMY
PARALLELED THE REPORT THEY HAD PRESENTED DURING THE
RECENT CIAP REVIEW IN WASHINGTON. (HE NOTED IN
PASSING THAT BOTH THESE PRESENTATIONS PRESENTED
A MUCH MORE SERIOUS PICTURE OF THE CHILEAN ECONOMY
THAN WAS THE CASE AT THE RECENT IMF STANDBY DISCUSSIONS
ACCORDING TO A REPORT HE HAD RECEIVED). HE REPORTED
THAT THE CHILEANS HAD PLACED HEAVY EMPHASIS ON THEIR
ESTIMATED RESERVE SHORTFALL OF AT LEAST \$250 MILLION
WHICH, HE NOTED, WAS BASED ON AN ASSUMPTION OF A
95 PERCENT DEBT RESCHEDULING FOR 1973 AND 1974 DEBT.
IN RESPONSE TO EMBOFF'S QUESTION, GEHRING SAID THE
CHILEANS HAD NOT STATED HOW THEY EXPECTED TO FINANCE
THIS SHORTFALL.

10. GEHRING SAID HE HAD ASKED RAUL SAEZ ABOUT THE
GOC'S ATTITUDE TOWARD COMPENSATION FOR EXPROPRIATED
PROPERTIES. HE SAID SAEZ HAD RESPONDED THAT THE
GOVERNMENT RECOGNIZED THAT IT HAD BOTH A LEGAL
AND A MORAL OBLIGATION TO PROVIDE COMPENSATION BUT
THAT IT DID NOT HAVE THE MONEY TO DO SO. GEHRING
SAID THE TEAM HAD NOT PROVIDED ANY DETAILS OF ITS
POSITION FOR THE FORTHCOMING PARIS CLUB DEBT
RESCHEDULING MEETING.
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